

# FY 2009 Governor's Budget Reduction Proposal

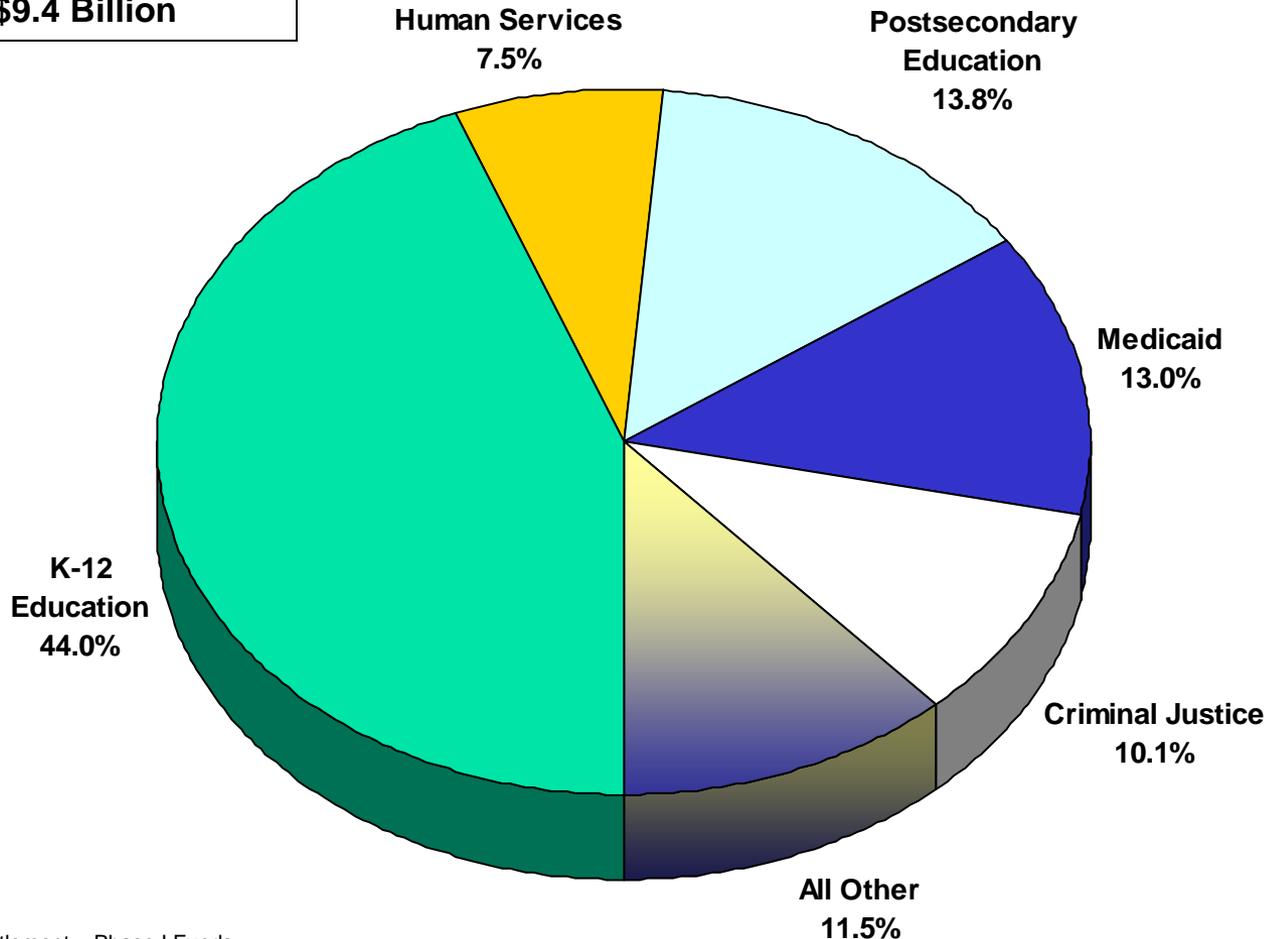
---

Presentation to the Joint Session of the House and  
Senate Appropriations and Revenue Committees  
January 13, 2009

Fiscal Year 2009

# Distribution of General Fund Appropriations

Total = \$9.4 Billion

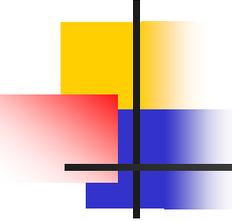


Excludes Tobacco Settlement – Phase I Funds

\* Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission and the Education Professional Standards Board.

\*\* Human Services include the Health and Family Services Cabinet (net of Medicaid).

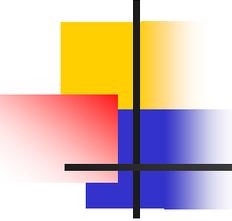
\*\*\* Criminal Justice System includes the Unified Prosecutorial System, Justice and Public Safety Cabinet and the Judicial Branch.



# Review of Budget Reductions Made in the last year

---

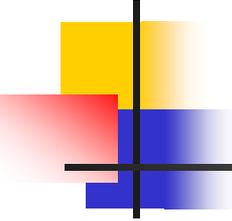
	(millions)
FY 2008 Budget Reductions	\$ 76
FY 2009 Reduced Appropriations	\$176
FY 2009 Expenditure Reductions	\$180
Mandated by Budget Bill	
Total Expenditure Reductions	<hr/> \$432



# Review of Budget Reductions Made in the last year

---

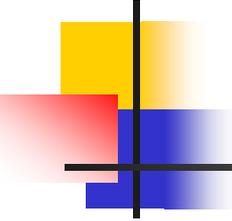
- Except for Medicaid, Corrections, & SEEK, all the other budgets were cut from FY 2008 budgets
- Human Service agencies cut by 4-7% over the last year
- Criminal Justice agencies cut by 6%
- Postsecondary Education cut by 6%
- **Most other state agencies cut by 15-18%**



# Examples of Reductions

---

■ Economic Development	20%
■ Constitutional Offices	16 – 18%
■ KET	18%
■ Local Libraries	18%
■ Military Affairs	14%
■ Environmental Protection	13%
■ Natural Resources	12%
■ Veterans' Affairs	11%
■ Community Based Services	6%
■ Public Health	6%
■ PVA's	6%
■ County Attorneys	5%
■ Commonwealth Attorneys	3.4%

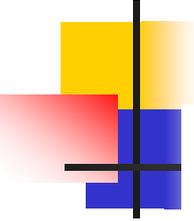


# Review of Budget Reductions Made in the last year

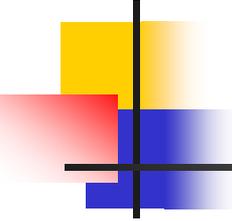
---

- Reduced state workforce by 2,000
  - impact widespread across agencies
- Reduced travel by 16%, despite spike in fuel costs
- Reduced grants and contracts for services
  - local governments
  - universities
  - non-profit groups such as mental health care centers

# History of General Fund Shortfalls



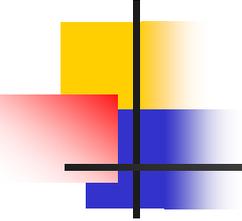
<u>Fiscal Year</u>	<u>Revenue Shortfall Percentage</u>	<u>Spending Growth Percentage</u>	<u>Revenue Shortfall</u>	<u>Budget Shortfall</u>
FY 1982-83	5.2%	8.8%	\$123.0	\$132.2
FY 1983-84	10.8%	7.3%	\$281.8	\$294.5
FY 1986-87	4.0%	9.8%	\$120.5	\$120.5
FY 1987-88	5.7%	10.1%	\$183.5	\$183.5
FY 1991-92	3.4%	8.4%	\$155.1	\$163.9
FY 1992-93	1.5%	(0.2%)	\$69.6	\$69.6
FY 1993-94	5.4%	2.6%	\$264.1	\$325.9
FY 2000-01	2.7%	4.9%	\$185.4	\$185.4
FY 2001-02	8.5%	1.8%	\$617.6	\$684.1
FY 2003-04	3.6%	2.2%	\$261.3	\$302.6
FY 2007-08	1.3%	7.6%	\$117.7	\$265.1
<b>FY 2008-09</b>	<b>5.1%</b>	<b>(1.3%)</b>	<b>\$456.1</b>	



# FY 2009 General Fund \$456.1 Million Less Than Budgeted

---

- Total receipts projected to be 5.1% less than budgeted.
  - Receipts projected to be \$234 million less than collected last year.
  - FY 2002 was last time receipts fell from prior year.
- Budgeted spending requires 2.6% increase
- Flat or Declining receipts projected:
  - Sales taxes
  - Individual income taxes
  - Corporate taxes
- Coal Severance receipts projected higher than budgeted by \$51.6 million

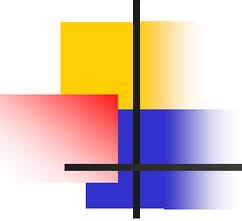


# FY 2009 Budget Challenge

---

	(millions)
Revenue Shortfall	\$456
Severance Tax Dedicated Revenue Adjustment*	19
Total Shortfall	<u>\$475</u>

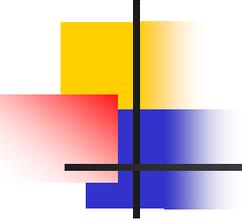
\*Severance Tax Distributions-first half of year



# Identify Resources to Mitigate Budget Cuts

---

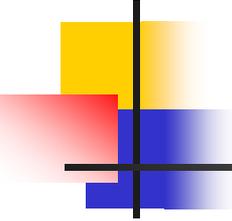
- No surplus available from FY 2008
  - \$11.3 million deposited to Budget Reserve Trust Fund
  - \$11.3 million spent on necessary government expenses authorized in Appropriations Act.
- Fund transfer opportunities
- Budget Reserve Trust Fund
- Debt service lapses



# Budget Reserve Trust Fund

---

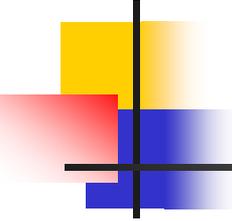
	<u>(millions)</u>
FY 08 Ending Balance	\$ 214.8
Half of FY 08 Surplus	<u>\$ 11.3</u>
Current Balance	\$ 226.1
FY 10 Appropriations	<u>\$(191.1)</u>
Unobligated Balance	\$ 35.0



# Difficult Choices Required

---

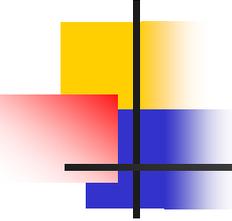
- Most state agencies cut significantly over the last year
- Half the fiscal year is already over
- Many financial commitments already completed
- Ability to hold priority areas harmless from cuts difficult
- Expect FY 2010 to be more challenging



# Principles for Addressing the Problem

---

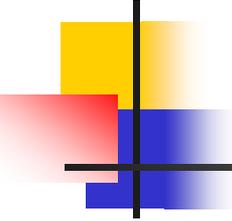
- Focus on reducing spending
- Minimize impact as much as possible on human services and education
- Consider the cumulative impact to programs of reductions already made
- Balance need for recurring solutions with current year impacts of cuts



# Difficult Areas to Reduce

---

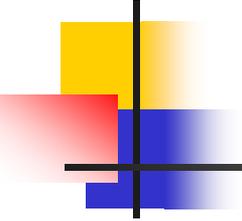
- Medicaid – has a budgeted shortfall and increasing demands
- Corrections bed-related expenses – enacted budget counts on population reductions
- Student financial aid – payments and commitments already made
- Teachers' Retirement employer contributions
- Health Insurance for School Districts
- Portions of SEEK for KTRS contributions and Equalized Facilities
- Debt service payments



# Balancing Scenarios

---

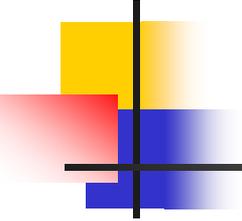
- **IF:**
  - Exempt Medicaid, Corrections, Debt Service, KTRS, Severance Tax, Student Financial Aid
  - Apply available BRTF of \$35 million
  - Identify \$125 - \$150 million in one-time resources
- **THEN:**
  - Required cuts to the rest of govt. are **6%**
  - If SEEK is exempted, cuts are **11%**
  - If SEEK and Postsecondary are exempted, cuts are **17%**



# Governor Beshear's Plan to Balance

---

- Reduce state agency budgets while preserving priorities
- Identify lapses and fund transfers to mitigate cuts
- Furlough state workers for 3 days to avoid significant layoffs
- Raise the Cigarette Tax by \$.70 to \$1.00 per Pack effective April 1, 2009 and raise taxes on other tobacco products
- Use appropriated funds in the Budget Reserve Trust Fund and replace it next year with increased tobacco tax revenues



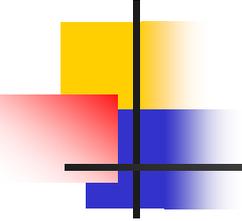
# Governor Beshear's Plan to Balance

---

(millions)

Spending Cuts	\$ 147
Fund Transfers	60
Furlough State Workers for 3 days	8
Tobacco Tax Increases	81
Use of Rainy Day Funds	<u>179</u>
TOTAL	\$ 475

\$225 million of the plan results from increase in tobacco taxes (\$81 million FY 2009 revenues plus \$144 million in FY 2010)



# Governor Beshear's Priorities

---

## **Education**

K-12 SEEK Funding (87%)  
All Other K-12 (13%)  
Teachers' Retirement System  
Student Financial Aid  
Postsecondary Education Institutions

## **Reductions**

No cuts  
2.0%  
No cuts  
No cuts  
2.0%

## **Healthcare**

Medicaid Benefits\*  
Mental Health/Mental Retardation  
Health Insurance for School Districts

No cuts  
No cuts  
No cuts

## **Public Safety**

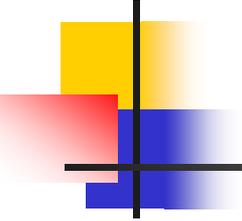
Corrections (bed related expenses)  
Juvenile Justice (portions related to facilities run by the Dept.  
and school based programs)  
State Police (preserve 60 trooper cadet class)

No cuts  
No cuts  
2.0%

## **All Other Areas of State Government**

4.0%

\*Does not include current year deficit.



# Effect of Priorities

---

67% of the budget

No reductions

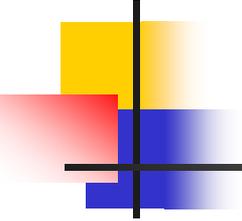
17% of the budget

2% reductions

16% of the budget

4% reductions

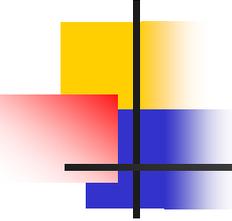
Excludes debt service reductions.



# Tobacco Tax Proposal

---

- Raise cigarette tax 70¢ to \$1.00 per pack
- Double the tax rate on other tobacco products:
  - Snuff – from 9.5¢ to 19¢ per unit
  - Other tobacco products from 7.5% to 15%



# Tobacco Tax Proposal

---

## FY 2009 Revenue Estimate

	(millions)
Increase in cigarette tax rate*	\$ 34.5
Extra collections due to hoarding-old tax rate	9.3
Floor stock tax	34.7
Other tobacco products and snuff	3.0
<b>Total FY 2009 Revenue Estimate</b>	<b>\$ 81.5</b>

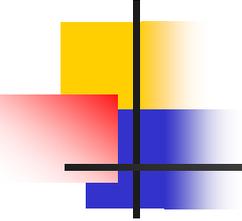
\*assumes April 1, 2009 effective date which requires passage by February 15, 2009 to implement.

# Tobacco Tax and Rainy Day Fund

## Annualized Revenue Increase-FY 2010:

	(millions)
--from cigarette tax proposal	\$ 136
--from other tobacco products and snuff proposal	<u>8</u>
<b>Total annualized revenue increase</b>	<b>\$ 144</b>

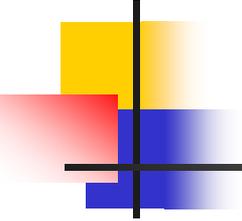
- The enacted budget appropriates \$191 million in FY 2010 from the Rainy Day Fund to spend.
- The Governor's proposal would shift \$144 million of the Rainy Day Fund from FY 2010 to FY 2009 and replace it in FY 2010 with the increased tobacco tax revenues.
- **\$144m + \$35m = \$179 million use of Rainy Day Fund**



# 3-Day Furlough Proposal

---

- 3-day furlough proposal for executive branch employees
- \$8 million General Fund savings
- Approval of plans by the Secretary of Personnel
- Emphasis on managing furloughs with least impact on services
- Any additional days must be necessary to balance an agency's budget and approved by the State Budget Director
- Flexibility to exempt essential, 24/7 personnel
- Authorization by the General Assembly is required

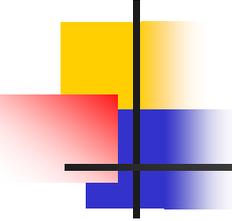


# Fund Transfers

---

	(millions)
Surplus Public Employee Health Insurance funds	\$ 50.0
Unexpended Debt Service from FY 2008-Tobacco- Settlement Phase I Funds	1.8
Unbudgeted Interest Income-Rural Development Trust Fund	0.6
Multi-County Fund in excess of enacted amounts	5.0
Finance and Administration – excess Restricted funds	0.6
Capital Construction & Equip. Purchase Contingency Account	2.0
<b>Total Proposed Fund Transfers</b>	<b>\$ 60.0</b>

Note: FY 2009 enacted fund transfers = \$302 million.



# Severance Tax Proposal

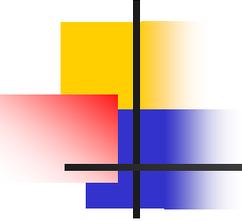
---

	Budgeted	Actual	Difference
	<u>1<sup>st</sup> 2 Qtrs.</u>	<u>1<sup>st</sup> 2 Qtrs.</u>	<u>1<sup>st</sup> 2 Qtrs.</u>
LGEDF	\$26.6	\$34.9	\$8.3
LGEAF	<u>\$26.9</u>	<u>\$37.8</u>	<u>\$10.9</u>
<b>TOTAL</b>	<b>\$53.5</b>	<b>\$72.7</b>	<b>\$19.2</b>

Distributions to counties/cities exceeded budget estimates by \$19.2m.

	Budgeted	Estimated	Difference
	<u>2<sup>nd</sup> 2 Qtrs.</u>	<u>2<sup>nd</sup> 2 Qtrs.</u>	<u>2<sup>nd</sup> 2 Qtrs.</u>
LGEDF	\$24.8	\$34.8	\$10.0
LGEAF	<u>\$28.2</u>	<u>\$36.0</u>	<u>\$7.8</u>
<b>TOTAL</b>	<b>\$53.0</b>	<b>\$70.8</b>	<b>\$17.8</b>

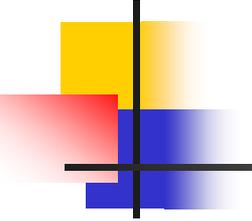
Proposal is to limit last 2 quarters' distributions to budgeted level.



# Practical Realities for FY 2009

---

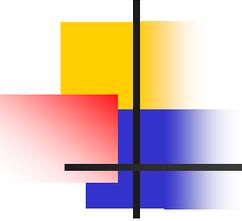
- 4% reductions equate to 8% annual cuts with half the year gone
- Programmatic impacts to be addressed by agency heads
- Timing of implementation – contract amendment notice
- Spending patterns are not always linear
- Mid-year reductions also represent the ability to obtain reductions
- FY 2009 savings from layoffs offset by unemployment insurance costs and severance payouts
- Exempting 67% of General Fund from cuts



# General Fund Reductions by Cabinet

---

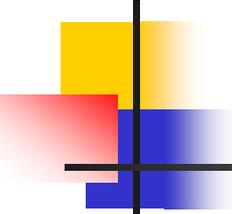
- Economic Development Cabinet - \$1.0m
- Education & Workforce Dev. Cabinet - \$2.5m
- Education Department - \$7.1m
- Energy and Environment Cabinet - \$2.9m
- Finance and Administration Cabinet - \$63.3m
- Health and Family Services Cabinet - \$18.6m
- Justice and Public Safety Cabinet - \$5.6m
- Labor Cabinet - \$0.2m
- Personnel Cabinet - \$1.2m
- Postsecondary Education - \$22.6m
- Public Protection Cabinet - \$0.2m
- Tourism, Arts and Heritage Cabinet - \$0.9m
- Transportation Cabinet - \$0.2m
- General Government - \$11.1m



# Economic Development Cabinet Budget Reduction Plan - \$909,200

---

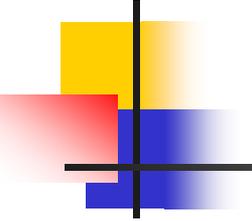
- **Office of Secretary**-\$909,200: reduce grant funds for high-tech and knowledge-based firms



# Education & Workforce Development Cabinet Budget Reduction Plan - \$2.5m

---

- **Career & Technical Education-2% reduction-\$532,600:** substitute Restricted funds of \$400,000, decrease in school supplies & equipment.
- **Vocational Rehabilitation and Blind-\$564,900:** reduce the number of disabled clients served by 686; reduction in services at two facilities; loss of \$2.7m federal matching funds.
- **Libraries-\$421,700:** loss of fiscal staff (down to 1); major reduction in operating expenses; shift existing expenses to Restricted funds statutorily tied to other purposes.
- **KET-\$505,900:** considering the elimination of the KET Education Classroom channel providing educational programs to classrooms; layoff 8 staff around the state that assist schools with the use of these programs in their curriculum. (34% workforce cut in 1 year)
- **Education Professional Standards Board-\$342,800:** reduce cooperating teacher stipends; use other funds; leave position vacant.

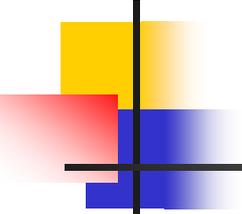


# Department of Education

## Budget Reduction Plan - \$7.1m

---

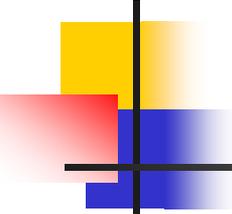
- **Learning and Results Services**-\$6,708,100: reduction in Textbook grant funds to school districts by 28% represents \$6,088,100 of the amount; \$620,000 undesignated reductions.
- **Executive Policy and Management**-\$27,600: undesignated reductions.
- **Operations and Support Services**-\$337,300: undesignated reductions.



# Energy and Environment Cabinet Budget Reduction Plan - \$2.9m

---

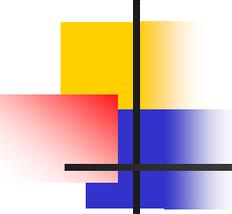
- **Environmental Protection**-\$891,300: leave vacant about 60 positions, most in permitting and inspections; federal fund risks; permit, compliance, & lab delays.
- **Natural Resources**-\$1,348,200: slower than anticipated ramp up of mine safety expansion; some General Fund replacement with Restricted funds.
- **Nature Preserves Commission**-\$45,100: potential layoff staff; significant decrease to nature preserve maintenance.
- **Public Service Commission**- \$382,000: leave analyst positions vacant; decrease consulting services.
- **Energy Development & Independence**- \$93,000: reduce grants for energy efficiency and renewable energy projects; close Madisonville one-person office.
- **Office of Secretary**-\$156,900: leave positions vacant in legal enforcement and administrative hearing areas.



# Finance & Administration Cabinet Budget Reduction Plan - \$5.1m

---

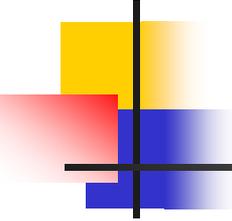
- **Revenue**-\$2,820,300: leave vacant auditing and processing positions; reduced operating expenses due to delay in implementing new tax information system; lower participation in E-Levy reduces expenditure need.
- **Office of Controller**-\$624,300: reduction in staff and operating costs; use unbudgeted Restricted Funds to mitigate significant staff reductions.
- **Facilities & Support Services**-\$236,600: reduce maintenance personnel and maintenance projects.
- **Property Valuation Administrators**-\$1,413,800: reduction of PVA staff, potentially impeding assessments.



# Health & Family Services Cabinet Budget Reduction Plan - \$18.6m

---

- **Community Based Services**-\$12,854,400: use prior-year Federal Fund balances, and existing Tobacco funds to replace General Funds; reduce certain foster care/child care reimbursement rates; relocate Jefferson County staff from 10 satellite offices to the L & N Building; replace state funding for training by leveraging existing university resources.
- **Public Health**-\$3,569,500: cut Local Health Department allocations 5%; reduce personnel positions; eliminate funding for Ky Homeplace Project; eliminate grant funds for Mobile Health clinic; reduce funding to UK and U of L Area Health Education Centers; reduce funding to Norton's Poison Control Center.
- **Aging & Independent Living**-\$1,746,800: eliminate Ky Caregiver Support program for the remainder of year-grants/subsidies to grandparents serving as primary caregivers for youths; eliminate Aging & Disability Resource Markets program for the remainder of year.
- **Children with Special Health Care Needs**-\$293,500: close Hopkinsville office; eliminate access to the underinsured assistance program for the remainder of the year.



# Justice and Public Safety Cabinet Budget Reduction Plan - \$5.6m

---

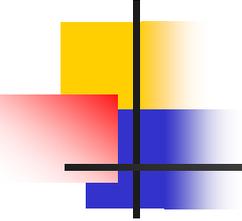
- **State Police-2% reduction-\$1,322,100:** improved efficiencies through reorganization of Commercial Vehicle Enforcement with the State Police (fleet, space and dispatch); leave positions vacant; reduce operating expenses further.
- **Juvenile Justice-2% reduction-\$1,667,500:** reduce 20 private child care beds; eliminate grants for Gateway and Mary Kendall homes; cancel all 8 community juvenile partnership grants-prevention programs; cut part of funds for Youth Challenge program operated by Military Affairs; reduction of research contracts.
- **Local Jail Support-\$608,900:** 4% cut to jail grants.
- **Justice Administration-\$468,700:** leave positions vacant in Medical Examiner's office, parole board and legal services office; reduce funding to indigent civil defense.
- **Public Advocacy-\$1,269,600:** reduction in number of public defenders; concern for sufficient representation of all cases.

# Labor Cabinet

## Budget Reduction Plan - \$202,100

---

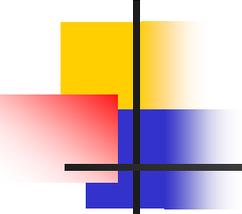
- **Labor-Employment Standards**-\$81,000: reduce field staff - investigators for wage and hour and child labor compliance.
- **General Administration-Shared Services**-\$121,100: leave positions vacant.



# Personnel Cabinet Budget Reduction Plan - \$1.2m

---

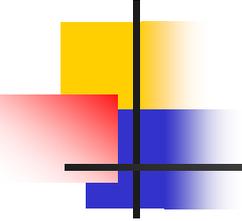
- **State Salary and Compensation Fund-\$1,083,700:** remaining balance after mandated expenditure reductions and distributions.
- **State Group Health Insurance Fund-\$79,500:** 4% cut to subsidies for quasi-governmental participants of state health insurance group.



# Postsecondary Education Budget Reduction Plan - \$22.6m

---

- **Council on Postsecondary Education**-\$2,103,100: reduction in grants to: adult education providers, new economy program, regional stewardship; leave positions vacant; reduction of virtual library contracts; reduction of high-speed network resources.
- **Eastern Ky University**-\$1,504,700
- **Kentucky State University**-\$520,300
- **Morehead State University**-\$910,800
- **Murray State University**-\$1,058,900
- **Northern Ky University**-\$1,046,300
- **University of Kentucky**-\$6,332,100
- **University of Louisville**-\$3,153,500
- **Western Ky University**-\$1,612,500
- **Ky Community & Technical College System**-\$4,386,400

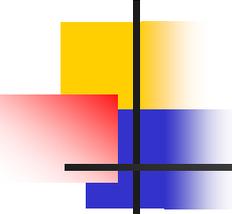


# Public Protection Cabinet

## Budget Reduction Plan - \$206,800

---

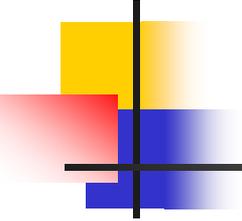
- **Housing, Buildings, and Construction**-\$92,800: inspector personnel reductions; delay new building code books.
- **Alcoholic Beverage Control**-\$36,900: leave enforcement position vacant; regionalize training for servers.
- **Horse Racing Commission**-\$16,900: leave security director position vacant.
- **Board of Claims/Crime Victims' Compensation**-\$28,300: reduce compensation paid to hearing officers.
- **Board of Tax Appeals**-\$16,800: leave appeal processor position vacant; reduce operating expenses.
- **Office of the Secretary**-\$15,100: personnel and operating reductions in communications area.



# Tourism, Arts & Heritage Cabinet Budget Reduction Plan - \$875,300

---

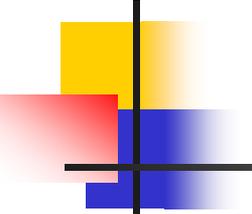
- **Parks**-no reduction: facing a FY 2009 deficit. Use of supplemental, nonrecurring funds over the past few years. Economic conditions and fixed costs are barriers to balancing despite expenditure reduction efforts. Plans in development to address FY 2009.
- **Historical Society**-\$273,300: remain closed on Mondays at the History Center; reduce Lincoln bicentennial teacher tool kits; eliminate sponsorship of Kentucky Folklife Festival.
- **Kentucky Horse Park Commission**-\$55,300: cut advertising; reduce positions.
- **Travel**-\$151,900: reduce tours of Capitol and Mansion; reduce operating hours at the 8 Welcome centers.
- **Arts Council**-\$142,100: reduce grants to artists, teachers, and the annual "Kentucky Crafted: The Market."
- **Kentucky Center for the Arts**-\$42,500: 10 fewer Governor's School for Arts scholarships; reduce staff or curtail some programs.
- **Berea Artisans Center**-\$13,700: close the Café two hours earlier every day.
- **Office of the Secretary**-\$161,800: reductions in creative services and Capital Plaza Tower operations; reduce marketing programs.



# Transportation Cabinet Budget Reduction Plan - \$203,100

---

- **Public Transportation**-\$203,100: reduce distribution to Metropolitan Planning Organizations; loss of federal matching funds for mass transit.

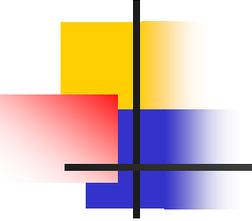


# General Government

## Budget Reduction Plan - \$11.1m

---

- **Veterans' Affairs**-\$673,200: possible layoff of at least 7 employees; delay hiring critical positions; eliminate travel for field representatives; seeking additional furlough days to minimize number of layoffs.
- **Military Affairs**-\$406,100: leave positions vacant in emergency management, armory maintenance, administrative support areas.
- **Local Government**-\$381,000: reduction of staff; reduce grants to area development districts and other recipients; reduce operating expenses.
- **KY Infrastructure Authority**-\$36,500: reduce allocations to Area Development Districts for water planning functions.
- **Commission on Human Rights**-\$77,000: leave human rights investigator positions vacant; reduction in investigating human rights complaints.



# General Government

## Budget Reduction Plan - \$11.1m

---

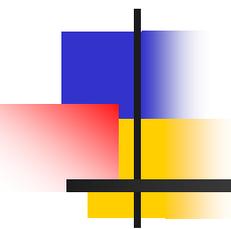
- **Commonwealth Attorneys**-\$1,325,900: the 4% target equates to 15% cuts to remainder of year due to inability to change elected official salaries. 42 of the 57 offices have decided to furlough staff; a few are reducing salaries; leaving positions vacant; replacing reduced General Funds with local funds if available.
- **County Attorneys**-\$1,126,100: the 4% target equates to 13% cuts to remainder of year due to inability to change elected official salaries. Most offices are using local funds from fiscal courts, cold check funds and other reserves to supplant the reduction.
- **Auditor of Public Accounts**-\$205,100: eliminate Auditor positions.
- **Agriculture**: \$773,900: possible reductions in the following programs: UK and Murray St Diagnostic labs, Food Distribution, State Fair, Farm Safety, Teen Tobacco Enforcement, Pests & Weed control.
- **Attorney General**-\$491,800: replace with unbudgeted Restricted funds to avoid layoffs.
- **Treasurer**-\$73,600: leave positions vacant in the disbursements and administrative support areas.

# General Government

## Budget Reduction Plan - \$11.1m

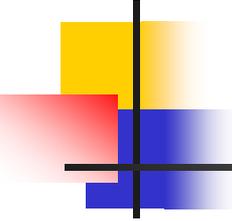
---

- **Secretary of State**-\$78,300: leave positions vacant and eliminate temporary staff in the elections, annual reporting and information indexing areas; move to fewer notices of corporate filings; interrupt technology improvements; potential layoffs if needed.
- **Board of Elections**-\$59,200: \$2.7m of budget already paid/committed for May & November elections; reduce administrative costs.
- **Registry of Election Finance**-\$51,500: require campaign finance training to occur in Frankfort only; reduce operating expenses.
- **School Facilities Construction Commission**-\$4,600,000: excess debt service.



# Road Fund Shortfall

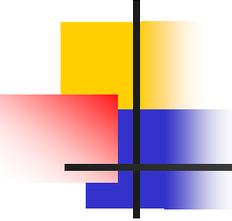
---



# FY 2009 Road Fund \$104.7 million less than budgeted

---

- Total receipts projected to be 7.9% less than budgeted for FY 2009
- FY 2009 receipts reflect a decline of 3.4% from FY 2008
- Motor Fuels taxes are 52% of receipts
  - Projected loss of revenues due to declining tax rate
- Motor vehicle usage taxes projected to be 16.2% less than FY 2008

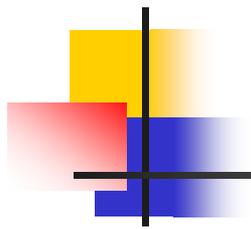


# Transportation Cabinet

## Road Fund Reduction Plan - \$104.7m

---

	(millions)
State Construction	\$58.9
Debt Service Savings	22.2
Statutorily Dedicated Revenue (Shared with Locals)	10.1
Personnel and Operating Reductions	4.3
Reduce AVIS Equipment Replacement Funds	2.8
Prior Year Unobligated Aviation Project Funds	1.8
3-Day Furlough	1.7
Excess State Match for Highways Research	1.5
Completed Capital Project Balances	<u>1.4</u>
<b>TOTAL</b>	<b>\$104.7</b>



---

# QUESTIONS